THE PRINCE EDWARD ISLAND ECONOMY

PROGRESS REPORT 2002

November 2002

Economics, Statistics and Federal Fiscal Relations Division
Provincial Treasury

THE PRINCE EDWARD ISLAND ECONOMY PROGRESS REPORT 2002

INTRODUCTION

This economic report summarizes the available statistical information concerning the progress of the Prince Edward Island economy between January and October 2002. The Island economy is referenced in the context of the national and international economic perspective. Emerging trends in economic indicators such as labour, population, prices, consumer spending, manufacturing, construction and the primary industries are identified and discussed.

The current data show growth of the provincial economy accelerating in 2002, following no growth in GDP in 2001. Employment gains in 2002 to date have been at approximately the same pace as in 2001. For the period January to October the unemployment rate in 2002, at 12.3 per cent, can compare to 11.9 per cent in 2001. As oil prices moderated from the previous year, consumer price inflation between January and October 2002 slowed to 2.1 per cent compared to 3.0 per cent during that period in 2001.

An electronic copy of this document is available at http://www.gov.pe.ca

NATIONAL AND INTERNATIONAL ECONOMIC PICTURE

After contracting for three consecutive quarters in 2001, the U.S. economy showed signs of a slow recovery that started in the fourth quarter of 2001 and continued into 2002. Estimates released by the *U.S. Bureau of Economic Analysis* show that the economy increased by 5 per cent at annual rates in the first quarter of 2002, 1.3 per cent in the second quarter, and 3.1 per cent in the third quarter. Annual economic growth in the United Sates was 3.8 per cent in 2000 and 0.3 per cent in 2001. Concern over a weak economy and declining stock market values caused the *U.S. Federal Reserve Bank* to lower the federal funds rate by 50 basis points, to 1.25 per cent, in November 2002. Between January and September 2002, the monthly U.S. unemployment rate averaged 5.7 per cent, compared to 4.5 per cent during the same period last year.

103-01309/

The pace of economic growth in Canada was strong in the first half of 2002 at 6.2 per cent in the first quarter of 2002 and 4.3 per cent in the second quarter. The *Economic and Fiscal Update*, delivered by John Manley, Deputy Prime Minister and Finance Minister, on October 30, 2002, indicates that economic growth in Canada is expected to average 3.4 per cent in 2002 and 3.5 per cent in 2003. This compares with economic growth in Canada of 4.5 per cent in 2000 and 1.5 per cent in 2001. The accelerating pace of economic expansion in Canada is related to increased employment, increasing exports, most notably to the United States, and stronger household spending. Automotive products led the way in exports as output at Canadian factories struggled to keep up with American demand. The rise in imports testified to the strong underlying trend of domestic demand.

In response to the strengthening economy, the *Bank of Canada* raised its target for the overnight lending rate in a series of steps from 2.0 per cent in January to 2.75 per cent in October 2002. The Conference Board of Canada's *Index of Consumer Attitudes* declined by 4.6 index points in the third quarter of 2001. Despite this decline, consumer confidence during the first three quarters of 2001 was 17.6 per cent higher than in the same period last year. The Board noted that the main reason for this increase was respondents' positive views on labour market conditions.

Year-to-date growth of national employment was 1.9 per cent to October 2002 and the unemployment rate averaged 7.7 per cent. Total labour income rose by 3.6 per cent during the first six months of 2002. On a year-to-date basis, in 2002 the consumer price index rose by 1.7 per cent compared to an annual increase of 2.6 per cent in 2001. The decline in the inflation rate is attributable to a moderation of energy price increases in 2002.

THE ISLAND ECONOMY

Dry growing conditions on Prince Edward Island in 2001 caused a 40 per cent decline in potato production. This decline was counterbalanced by strength in other sectors, resulting in zero growth in GDP. In 2002, a vibrant recovery is under way, sparked by both a rebound in exports to the United States (mainly agricultural and processed food products) and by a further expansion in consumer spending. Housing starts in 2002 are expected to surpass 800 units by the end of the year, a level not seen since 1989, while manufacturing shipments to date are 7.7 per cent higher than in 2001. Consequently economic forecasters' growth estimates for 2002 range from 3.0 per cent to 4.0 per cent (see Table 1). This rate of expansion compares with recent annual growth rates of 4.1 per cent in 1999, 3.9 per cent in 2000 and 0.0 per cent in 2001, as reported by *Statistics Canada*.

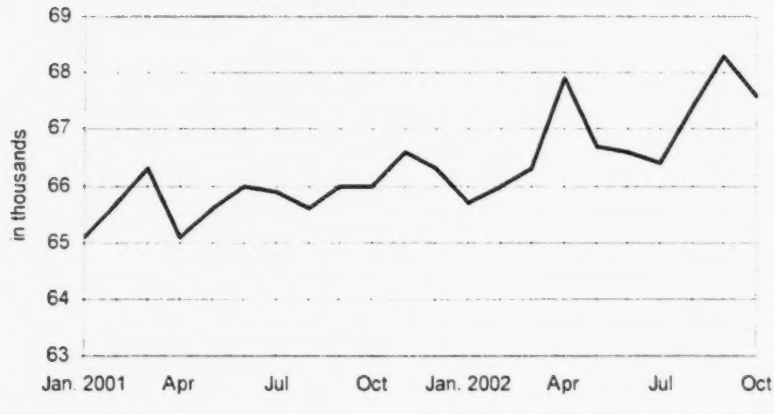
Table 1

PRIVATE ECONOMIC GROWTH FORECASTS, 2002
PRINCE EDWARD ISLAND

Forecast by:	% Economic Growth, 2002
RBC Financial Group	3.0
Scotiabank Group	3.0
TD Bank Financial Group	3.5
The Conference Board of Canada	4.0

THE LABOUR MARKET

Diagram 1
EMPLOYMENT 2001-02
Prince Edward Island



Statistics Canada, cat. no. 71-001-XIB

As Diagram 1 indicates, employment on Prince Edward Island has been rising steadily since the beginning of this year. During the first ten months of 2002 employment rose by an average of 1,200 jobs, an increase of 1.8 per cent. This compares with year-to-date employment growth of 1.7 per cent in 2001. Employment in the service-providing sector is growing by 2.2 per cent in 2002, while the goods-producing sector employment is increasing by 0.4 per cent. Employment gains in the service-providing sector were highlighted by increases in professional, scientific, technical and management services as well as public administration.

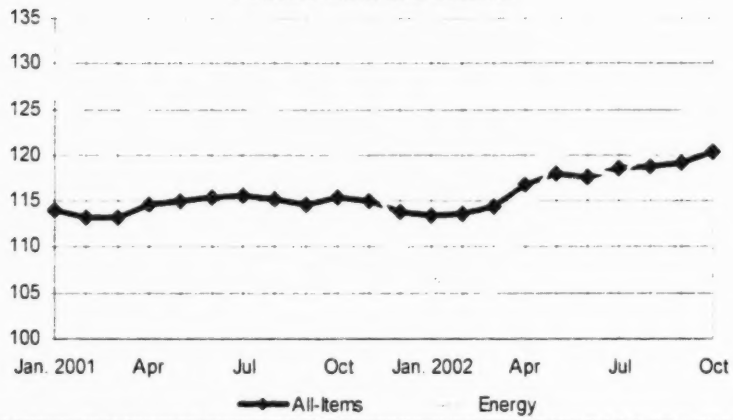
The seasonally adjusted unemployment rate fell from a high of 12.7 per cent in January 2002 to 11.9 per cent in October of this year. The average unemployment rate for this period rose from 11.9 per cent in 2001 to 12.3 per cent in 2002.

THE POPULATION

Statistics Canada estimates that the Prince Edward Island population totaled 139,913 on July 1, 2002, compared to 138,904 a year earlier. During the twelve month period ending on June 30, 2002, the provincial population expanded by 1,009 persons, or 0.7 per cent. Twenty-four per cent of this increase is attributed to natural increase, substantially down from 49 per cent a year earlier. Net inter-provincial migration accounted for 66 per cent of the increase, up from 26 per cent in 2001, while net international migration in 2002 made up 10 per cent, as compared to 25 per cent in 2001. It should be noted that all population data are subject to a significant revision by Statistics Canada in 2003, once the census under-coverage errors are accounted for in the revised population estimates.

CONSUMER SPENDING AND PRICES

Diagram 2
ALL-ITEMS CPI and ENERGY INDEX
Prince Edward Island



Statistics Canada, cat. no. 62-001-XIB

The *All-Items Consumer Price Index* (CPI) for Prince Edward Island rose by 2.1 per cent during the first ten months of 2002, compared with an annual increase of 2.6 per cent for 2001. However, decreases in the monthly energy price index on Prince Edward Island that occurred in 2001 reversed from March 2002, in light of rising prices for gasoline and home heating oil, as Diagram 2 indicates. The average price of regular gasoline at self-service stations on the Island, as measured by Statistics Canada, fell throughout 2001 and reached a low of 59.4 cents per liter in February 2002, the lowest price since October 1999. By October 2002 the average price of regular gasoline, as regulated by the Island Regulatory and Appeals Commission, had risen to 73.9 cents per liter.

The retail sector continued to expand in 2002. Seasonally adjusted retail sales on Prince Edward Island were valued at $992 million during the first nine months of 2002, an increase of 3.8 per cent over the same period last year. This was at par with the 3.8 per cent expansion during that period in 2001. Nationally, retail sales expanded by 6.3 per cent between January and September 2002.

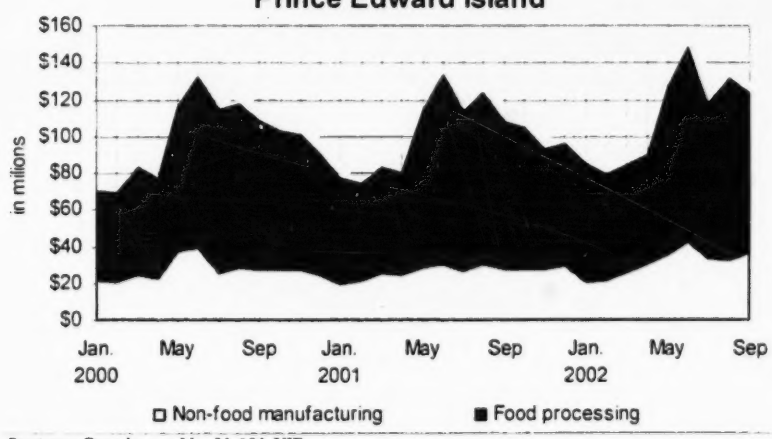
During the period January to September 2002, the value of new motor vehicles sold rose by 8.8 per cent to value $101.5 million. This was in sharp contrast to 2001, when the value of new vehicle sales fell by 5.1 per cent.

PERSONAL INCOME

The rising level of employment, coupled with wage settlements, caused total labour income earned on Prince Edward Island to grow substantially at 6.9 per cent during the first six months of 2002. This compares with 4.0 per cent during the same period in 2001. National average labour income rose by 3.6 per cent between January and June 2002 compared to 5.6 per cent a year earlier. The *Construction* industry registered the largest increase in labour income in the goods-producing sector at 10.2 per cent, while the largest increase in the service-providing sector occurred in the *Professional and Personal Services* industry, which includes lawyers, doctors, accountants, etc., where total labour income increased by 10.7 per cent during the first six months of 2002.

MANUFACTURING

Diagram 3
MONTHLY MANUFACTURING SHIPMENTS
Prince Edward Island



Statistics Canada, cat. No. 31-001-XIB

Total manufacturing shipments on Prince Edward Island were valued at $984.2 million during the first nine months of 2002, an advance of 8.4 per cent from the same period last year. Between January and September 2002 food products were valued at $703.7 million, an increase of 4.6 per cent from 2001. Most of this growth occurred on the strength of processed fish products, which expanded by 9.7 per cent after a 1.5 per cent decline in 2001. The value of shipments of processed potato products rose by only 0.9 per cent in 2002, after advancing by 11.5 per cent in 2001, which was related to the lack of potatoes from 2001.

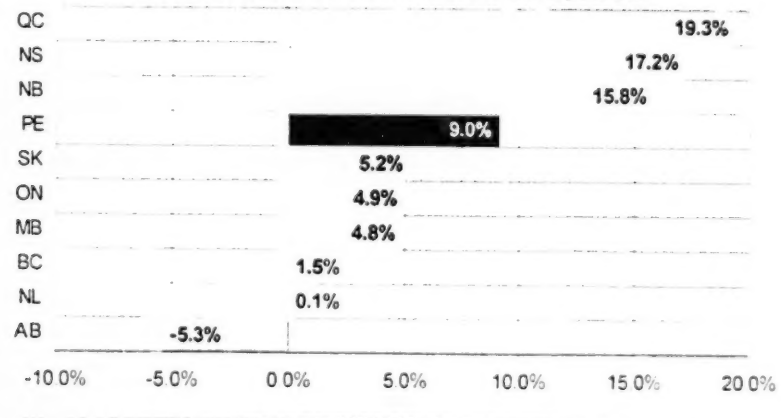
As Diagram 3 illustrates, the variability in the monthly value of manufacturing shipments is due to the seasonal nature of the food-processing industry. Non-food manufacturing shipments increased by 19.4 per cent in value in 2002, as aerospace and wood processing showed increases of 28.2 per cent and 15.7 per cent, respectively.

International Trade

International exports of goods from Prince Edward Island for the first eight months of 2002 were valued at $445.6 million, an increase of 3.3 per cent compared to the same period in 2001. The value of exported raw potatoes during this period was $17.7 million compared to $11.4 million in 2001, an increase of 55.2 per cent. In 2002 processed potato products, the Island's dominant international export, fell by 11.8 per cent year-over-year to value $134.4 million. Between January and August the value of exported seafood products rose from $119.1 million in 2001 to $152.6 million in 2002, an increase of 28.1 per cent. Present indications are that the potato harvest in 2002 is very promising, which will permit a recovery in processed potato products towards year's end.

Construction and Housing

Diagram 4
GROWTH IN VALUE OF CONSTRUCTION INTENTIONS, 2002



Source: Statistics Canada, cat. no. 61-206-XPB

According to Statistics Canada's revised *2002 Private and Public Investment Intentions*, construction activity on Prince Edward Island continued the rapid rate of expansion that was recorded in 2001. The major factor in 2001 was non-residential construction, whereas in 2002 housing was the leader. Construction growth is forecast to be 9.0 per cent in 2002 compared to 8.2 per cent in 2001. As Diagram 4 indicates the Island's construction activity ranks fourth in the nation in terms of expansion, behind Quebec, Nova Scotia and New Brunswick.

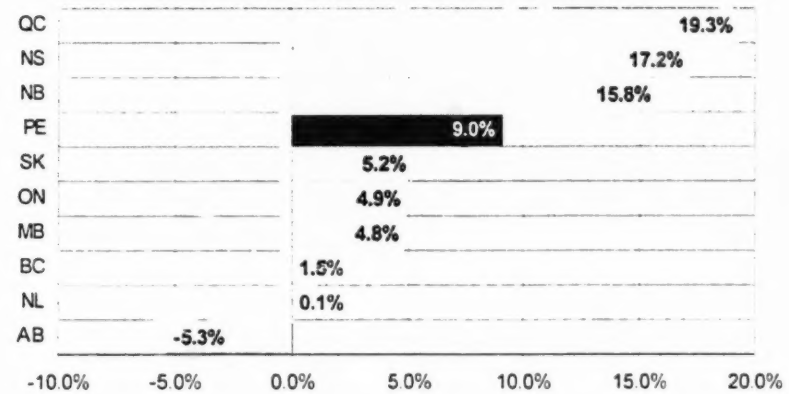
As Diagram 3 illustrates, the variability in the monthly value of manufacturing shipments is due to the seasonal nature of the food-processing industry. Non-food manufacturing shipments increased by 19.4 per cent in value in 2002, as aerospace and wood processing showed increases of 28.2 per cent and 15.7 per cent, respectively.

INTERNATIONAL TRADE

International exports of goods from Prince Edward Island for the first eight months of 2002 were valued at $445.6 million, an increase of 3.3 per cent compared to the same period in 2001. The value of exported raw potatoes during this period was $17.7 million compared to $11.4 million in 2001, an increase of 55.2 per cent. In 2002 processed potato products, the Island's dominant international export, fell by 11.8 per cent year-over-year to value $134.4 million. Between January and August the value of exported seafood products rose from $119.1 million in 2001 to $152.6 million in 2002, an increase of 28.1 per cent. Present indications are that the potato harvest in 2002 is very promising, which will permit a recovery in processed potato products towards year's end.

CONSTRUCTION AND HOUSING

Diagram 4
GROWTH IN VALUE OF CONSTRUCTION INTENTIONS, 2002



Source: Statistics Canada, cat. no. 61-206-XPB

According to Statistics Canada's revised *2002 Private and Public Investment Intentions*, construction activity on Prince Edward Island continued the rapid rate of expansion that was recorded in 2001. The major factor in 2001 was non-residential construction, whereas in 2002 housing was the leader. Construction growth is forecast to be 9.0 per cent in 2002 compared to 8.2 per cent in 2001. As Diagram 4 indicates the Island's construction activity ranks fourth in the nation in terms of expansion, behind Quebec, Nova Scotia and New Brunswick.

Residential building permits issued during the first nine months of 2002 totaled $74.0 million, an increase of 52.0 per cent compared to the same period last year, while non-residential permits fell 72.6 per cent to total $34.7 million during that period.

Total housing starts during the period January to September 2002 rose by 35.2 per cent from the level reached one year ago. The year-to-date number of housing starts totaled 619 units in September 2002.

Tourism

According to preliminary estimates there was a modest increase in the number of visitor parties during the period May to October 2002 compared to last year. Estimates of total visitor expenditures during this period are expected to be slightly higher than those recorded in 2001.

The Primary Industries

Agriculture

Total farm cash receipts were up by 4.2 per cent during the first six months of 2002 to value $191.3 million. Potato receipts for this period were valued at $108.5 million, up by $37.3 million or 52.4 per cent. Livestock receipts declined by 2.5 per cent between January and June 2002 to a value of $60.5 million, largely due to a 12.3 per cent decrease in hog receipts. Government payments during the first six months of 2002 were valued at $12.3 million or 69.1 per cent lower than during the same period in 2001, when compensation was valued at $39.8 million mainly as a result of the potato wart outbreak. Although the harvested acreage of the 2002 potato crop, as estimated by Statistics Canada, showed no change from last year at 107,000 acres, potato production expanded from 18.4 million cwts. in 2001 to 28.9 million cwts. in 2002, an increase of 57.1 per cent.

Fishing

Preliminary data for the Island's fishing industry indicate that the total value of fish landings in 2002 is at par with the value recorded in 2001, i.e. about $160 million. According to preliminary estimates provided by the P.E.I. Department of Fisheries and Aquaculture total lobster landings in 2002 were 5.4 per cent higher than last year, although its landed value is expected to be similar to that in year 2001 – in the $100 million range. The value of Island mussel and oyster production is also expected to be at par with the previous year. The volume of herring was down from 2001 levels because of reductions in fish quotas, while bluefin tuna experienced a good return as a result of higher prices.

PROVINCIAL GOVERNMENT

On March 22, 2002, Provincial Treasurer Patricia Mella presented her sixth Budget Address and tabled budget estimates showing a deficit of $28.8 million in the 2002-03 fiscal year. Part of this increased spending is the result of the acceleration of the East Prince Health Facility construction. Minister Mella, along with other provincial Finance Ministers, is continuing to pressure the federal government for improvements to the Equalization program and health funding.

SUMMARY

Available data indicate that the Island economy is growing in the range of 3.0 to 4.0 per cent in 2002. This is higher than the forecast of 1.2 per cent economic growth presented in the 2002 Provincial Budget and compares to 0 per cent growth in 2001 and 3.9 per cent growth in 2000. Year-to-date monthly employment expanded by 1,200 jobs or 1.7 per cent in 2002 and the average year-to-date unemployment rate was 12.3 per cent in October 2002. Total labour income grew by 6.9 per cent over the first half of 2002 compared to the same period in 2001. The value of manufacturing shipments on Prince Edward Island rose by 8.4 per cent to $984.2 million. Construction activity is expected to be 9.0 per cent higher than in 2001.

Inquiries can be directed to Nigel Burns or Hank Spierenburg at the Economics, Statistics, and Federal Fiscal Relations Division (902) 368-4030.